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PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF
EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND
REPORTING: REVIEW OF IMPORTANT CURRENT DEVELOPMENTS AT THE
GLOBAL AND NATIONAL LEVELS IN THE FIELD OF ACCOUNTING AND
REPORTING BY TRANSNATIONAL CORPORATIONS

Review of important current developments at the national level
in the field of accounting and reporting by transnational
corporations

Report of the Secretary-General

Addendum

SUMMARY

This report contains four additional country replies on current accounting developments. They were received too late to be included in the main body of the report.

* E/C.10/AC.3/1991/1.

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China

1. The Law on Chinese Foreign Joint Ventures, adopted on 1 July 1979 by the Fifth National People's Congress at its second session, has been amended in accordance with the decision taken on 4 April 1990 by the Seventh National People's Congress at its third session. The Decision on Revising the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment contained the following amendments:

(a) A new paragraph 3 was added to article 3 as follows: "The State shall not nationalize or requisition any joint venture. Under special circumstances, when public interest requires, joint ventures may be requisitioned in accordance with legal procedures and appropriate compensation shall be made";

(b) Article 3 was revised to read: "All parties of a joint venture shall submit their agreements and contracts and articles of association to the state department concerned with foreign economic relations and trade (hereinafter referred to as examining and approving authorities). The examining and approving authorities shall decide within three months whether to approve or disapprove the joint venture. Once approved, the joint venture shall register with the concerned department of the General Administration for Industry and Commerce and open business after receiving its business license";

(c) Paragraph 1 of article 6 was revised to read: "A joint venture shall have a board of directors, the size and composition of which shall be stipulated in the contract and articles of association after consultation between the parties to the venture; the directors shall be appointed and replaced by the relevant parties. The chairman and vice-chairman or vice-chairmen shall be chosen through consultation by the parties to the venture or elected by the board of directors. If the Chinese side or the foreign side assumes the office of the chairman, the other side shall assume the office(s) of the vice-chairman or vice-chairmen. The board of directors shall decide on important issues concerning the joint venture on the principle of equality and mutual benefit";

(d) Paragraph 2 of article 7 was revised to read: "A joint venture may, in accordance with the provisions of the relevant laws and administrative rules and regulations of the State on taxation, enjoy preferential treatment for reduction of, or exemption from, taxes";

(e) Paragraph 1 of article 8 was revised to read: "A joint venture shall, on the strength of its business license, open a foreign exchange account with a bank or any other financial institution that is permitted by the state agency for foreign-exchange control to handle foreign-exchange transactions";

(f) Paragraph 1 of article 10 was revised to read: "The net profit that a foreign participant receives as his share after executing his obligations under the pertinent laws, agreements and contracts, the funds he receives at the time the joint venture terminates or winds up its operation, and his other funds may be remitted abroad in accordance with the foreign-exchange regulations and in the currency or currencies specified in the contracts concerning the joint venture";

(g) Article 11 was revised to read: "The wages and other legal income of the foreign employees of a joint venture shall be taxed according to the Law on Personal Income Tax of the People's Republic of China before they are remitted abroad according to state regulations on foreign exchanges";

(h) Article 12 was revised to read: "Based on various lines of business and circumstances, the issue of operation periods of joint ventures may be handled differently. Joint ventures engaged in a certain line of business shall specify in their contracts their operation periods, while joint ventures engaged in another line of business may choose whether or not to specify their operation periods. In the case of a joint venture with its operation period specified, if the parties to the venture agree to extend the operation period, the venture may file an application to the examining and approving authorities six months before the expiration of the operation period. The examining and approving authorities shall, within one month of receipt of the application, decide whether to approve or disapprove it";

(i) Article 13 was revised to read: "If there occur heavy losses, failure of a party to perform its obligations under the contract and the articles of association or force majeure etc., the joint venture may terminate the contract through consultation and agreement by the parties and subject to approval by the examining and approving authorities and to registration with the concerned department of the General Administration for Industry and Commerce. In cases of losses caused by a breach of contract, the financial responsibility shall be borne by the party that has breached the contract."

France

2. During 1989 and 1990, the National Accounting Council has issued standards on the following issues:

(a) Accounting treatment of remissions accorded a debtor by creditors in the context of settling company difficulties and undisclosed payables and receivables;

(b) Accounting principles applicable to pooling of receivables;

(c) Accounting treatment of the supplementary company tax levied on distributions;

(d) Accounting treatment of goodwill.

3. The National Accounting Council has also produced technical commentaries on the partial implementation of the system known as the "cross-linked system". This accounting system enables the performance of enterprises to be improved by making available to them information that is up to date, pertinent and accurate. Enterprises wishing to do so may, in accordance with current accounting principles, make partial use of this system.

4. The National Accounting Council will continue its work on the cross-linked system and will research the extent to which more comprehensive implementation of the system would be possible with the further development of French accounting

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standards. A new accounting plan for banks will be established in accordance with the European directive relating to financial statements and consolidated financial statements of credit institutions. New provisions will apply to the consolidation of insurance and investment enterprises. Accounting standards will be formulated for new financial instruments and intangible assets.

Nigeria

Accounting standards adopted in 1989 and 1990

5. The Nigerian Accounting Standards Board published the following accounting standards:

(a) Statement of Accounting Standard No. 8 (SAS 8). Accounting for Employees' Retirement Benefits, with effect from 1 January 1991;

(b) Statement of Accounting Standard No. 10 (SAS 10). Accounting by Banks and Non-Bank Financial Institutions (part I), with effect on financial statements covering periods ending on or after 31 December 1990.

Legal requirements governing corporate accounting and reporting in Nigeria

6. A new decree (law) entitled "Companies and Allied Matters Decree No. 1 of 1990" has been promulgated by the Federal Military Government of Nigeria with an amendment entitled "Decree No. 32 of 1990. 'Companies and Allied Matters (Amendment) Decree 1990'".

7. This decree took effect as at 31 December 1990.

Union of Soviet Socialist Republics

New legal requirements

8. New legal requirements governing accounting and reporting were issued in the USSR during 1989 and 1990 in the following areas:

(a) Procedures for the preparation of annual financial statements of joint ventures established in the territory of the USSR with the participation of Soviet and foreign organizations, companies and management organs were issued by the Ministry of Finance and the State Statistical Committee of the USSR on 8 August 1989. These regulations prescribe the format for the balance sheet, the profit-and-loss statement and the notes to the financial statements. They set forth the procedures for preparing the financial statements and presenting therein all components of the assets of joint ventures;

(b) Regulations concerning recording in the financial statements and reports of economic operations involving the leasing of property were issued by the Ministry of Finance and the State Statistical Committee of the USSR on 11 April 1990. On the basis of the new Soviet legislation governing leases, these regulations set forth the procedures for recording operations involving the leasing

of specific types of property (fixed assets both productive and non-productive, as well as the leasing of enterprises and structural units);

(c) Procedures for financial statements on specific financial and economic transactions at joint ventures and international organizations established in the territory of the USSR were issued by the Ministry of Finance of the USSR on 6 June 1990. These regulations introduce fundamental changes in accounting methods in respect of fixed assets, deductions for depreciation of such assets, capital investments, leasing of property, sales, foreign-currency transactions, and exchange-rate fluctuations. They set forth for the first time accounting procedures for financial investments, depreciation of intangible assets, and reserve funds for bad debts;

(d) The format and procedures for the submission of annual financial statements of co-operatives, corporate lessors and small companies were issued by the Ministry of Finance and the State Statistical Committee of the USSR on 11 June 1990. These regulations prescribe the format for the balance sheet and the notes. They set forth the procedures for preparing the financial statements and presenting therein all components of the assets of co-operatives, corporate lessors and small companies;

(e) The regulations concerning accounting for securities in financial statements were issued by the Ministry of Finance of the USSR on 31 July 1990. These regulations set forth the accounting procedures for state enterprises and co-operatives in respect of the shares of enterprises and labour collectives, and in respect of bonds, savings certificates and bills of exchange. They establish the methods for the evaluation of securities in the balance sheet;

(f) The regulations for financial reporting by joint-stock companies and limited-liability companies were issued by the Ministry of Finance of the USSR on 31 July 1990. These regulations lay down the general principles of corporate accounting. They set forth the special procedures for recording transactions relating to the establishment of the capital fund, the sale of shares and bonds, the payment of dividends, the movement of fixed assets, deductions for the depreciation of such assets, deductions for the depreciation of intangible assets, and the management of long-term and other financial investments.

9. In the USSR, consideration is currently being given to a whole range of issues relating to the development of accounting and reporting regulations geared to market-economy conditions. In this connection, a review of the following basic norms governing the organization and preparation of financial statements and reports is scheduled for 1990 and 1991, including:

(a) Regulations for financial reports and balance sheets and regulations for senior accountants to be issued by the Council of Ministers of the USSR;

(b) Chart of accounts to be issued by the Ministry of Finance of the USSR;

(c) Basic guidelines for the planning and recording of production expenditure, in accordance with the new Soviet legislation on the taxation of enterprises.

10. At present, the standards governing accounting for and by joint ventures are, for the most part, based on the concepts and principles developed for state enterprises. These standards are set forth in the Instructions of the Ministry of Finance and the State Statistical Committee of the USSR of 27 February 1987, 3 May 1988, 8 May 1988, 8 August 1989 and 6 June 1990. They prescribe the format for financial statements and the balance sheet and set forth specific accounting rules for fixed assets, capital investments, financial investments and foreign-currency transactions. They determine at what point output is to be considered sold, and when profits are to be declared and reserve funds established for bad debts. They specify how often and to which organs reports are to be submitted.

11. It is expected that special standardized procedures for accounting and reporting for and by joint ventures will be introduced in 1991. Work in this area is proceeding in earnest, with the participation of some members of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting appointed by the United Nations Centre on Transnational Corporations.

12. The question of accounting for intangibles is currently under consideration. It is expected that special regulations in that area will be issued in due course. For the time being, the situation is as discussed in the following paragraphs.

13. As to computer software, state enterprises include in their financial statements software that is valued on the basis of the actual expenditure incurred in acquiring it. Deductions for amortization are applied, according to the rules established by the Soviet Government for the amortization of computer software or over the normal period of useful life of the software. The costs of acquiring licenses, patents and other intangibles are written off, as they are incurred, against special funds for the development of production, science and technology.

14. Joint ventures include intangibles in their financial statements, unless their charter documents provide otherwise. The amortization charge for intangibles is fixed on the basis of the procedures set forth in the charter documents.

15. Joint-stock companies and limited-liability companies include in their financial statements such intangibles as the right to use land, water and other natural resources, and other property rights (including the right to intellectual property). The amortization charge for intangibles is fixed according to rates calculated by the companies on the basis of initial cost and duration of useful life (not exceeding the duration of the company's activities). Where it is impossible to determine the duration of the useful life of intangibles, the amortization rates are calculated on the basis of a useful life of 10 years (but not longer than the duration of the company's activities). A further amortization charge is added to production costs (overheads) in a simultaneous writing off of the initial cost of intangibles.

16. The organization of the accounting profession is currently governed by the regulations for senior accountants ratified by a resolution of the Council of Ministers of the USSR on 24 January 1980. The qualifications required for the

accounting profession were established by the State Committee on Labour and Social Questions of the USSR in 1986. Specifically, senior accountants must have completed university education in economics and have worked in leadership positions in the financial and accounting field for no less than five years. There are three classes of accountants: class 1 accountants must have completed university education in economics and have worked as a class 2 accountant for no less than three years; class 2 accountants must either have completed university education in economics without fulfilling the work-experience requirement or have completed special secondary education and have worked as an accountant for no less than three years; class 3 accountants must either have completed special secondary education without fulfilling the work-experience requirement or have received special training through an established course and have worked in accounting and financial control for no less than three years. There are also three classes for economists working in accounting and analysis of economic activity.

17. No special qualifications are currently required for auditors, this being a new profession. Since 1986, however, qualifications have been required for the profession of certified public accountants, for which there are three classes, admission to each class being subject to educational work-experience requirements. For example, class 1 certified public accountants (the highest class) must have completed a university education in economics and have worked as class 2 certified public accountants for no less than three years. Proposals are being discussed for the reorganization of the accounting profession and they will be submitted in due course.

18. In the transition period of the privatization of state enterprises, accounting and reporting rules are subject to the following requirements:

(a) If state enterprises are being put up for lease, the rules established by the Ministry of Finance and the State Statistical Committee of the USSR on 11 April 1990 and 11 June 1990 apply;

(b) If state enterprises are being transformed into joint-stock companies or limited-liability companies, the rules established by the Ministry of Finance on 31 July 1990 apply;

(c) If state enterprises are being bought up by co-operatives, the rules established by the Ministry of Finance on 14 December 1988 and the accounting rules established by the Ministry of Finance and the State Statistical Committee on 11 June 1990 apply;

(d) If state enterprises are being transformed into small businesses, the rules established by the Ministry of Finance and the State Statistical Committee on 11 June 1990 apply.

19. At the end of the transition period of the privatization of State enterprises, the intention is to introduce unified accounting and reporting rules, which are appropriate for a market economy.